EXHIBIT E

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

BOARD OF TRUSTEES OF THE AFTRA RETIREMENT FUND, in its capacity as a fiduciary of the AFTRA Retirement Fund, individually and on behalf of all others similarly situated, Plaintiff, v. JPMORGAN CHASE BANK, N.A., Defendant.	Consolidated as Civil Action No. 09-00686 (SAS) (DF)
BOARD OF TRUSTEES OF THE IMPERIAL COUNTY EMPLOYEES' RETIREMENT SYSTEM, in its capacity as a fiduciary of the Imperial County Employees' Retirement System, individually and on behalf of all others similarly situated, Plaintiff, v. JPMORGAN CHASE BANK, N.A., Defendant.	
THE INVESTMENT COMMITTEE OF THE MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN, in its capacity as a fiduciary of the MaBSTOA Pension Plan, individually and on behalf of all others similarly situated, Plaintiff, v. JPMORGAN CHASE BANK, N.A., Defendant.	

REPORT OF FIACHRA T. O'DRISCOLL
SUBMITTED ON BEHALF OF PLAINTIFFS

Qualifications

1. My name is Fiachra T. O'Driscoll. I am a partner at KFSO Investments, an investment business focused on equities trading.

2. From 2001 until August 2008, I was employed as a Managing Director at Credit Suisse in New York. While a Managing Director at Credit Suisse, I served as co-head of residential ABS capital markets from 2000-2003. In this capacity, I was responsible for arranging new issues of asset backed securities and mortgage backed securities. In 2003, I joined Credit Suisse's CDO Group where I had responsibility for structuring and marketing synthetic CDOs, that is, CDOs that are pools of credit default swaps.

3. For almost all of the period of time in question (June 2007 to October 2008), I was the co-head of Cash and Synthetic CDO Structuring for the Americas at Credit Suisse. In this position, I was jointly responsible for a team of approximately twenty people (the "CDO Structuring" team) who negotiated engagements to arrange and structure CDO transactions, and who marketed the CDOs and their managers to debt investors worldwide.

4. In the spring of 2007, I also became responsible for Credit Suisse's restructuring efforts for structured investment vehicles ("SIVs"). Around that time, the fixed income division's management formed the view that SIVs were likely to disappear, at least in their existing form, and that Credit Suisse should take a proactive part in determining the SIVs' resolution. This additional responsibility was a natural progression from my CDO responsibilities because CDOs and SIVs shared many of the same characteristics.

5. In summary, I have more than 15 years of experience working with complex structured financial products, including SIVs, am knowledgeable about these products, am knowledgeable about market conditions affecting these products, and am qualified and capable of rendering opinions about the prudence (or the lack thereof) of investments in these vehicles during the 2007-2008 period and the ability to liquidate debt investments in these vehicles during this same period.

6. The opinions expressed in this report are based principally on my experience in marketing and arranging transactions with SIVs, as well as my broader experience in the structured finance and fixed income markets, and on publicly available information regarding SIVs' assets, liabilities, structures and operations in the years up to and including 2008. My opinions are also based upon my review of certain internal JP Morgan documents and deposition transcripts pertaining to this matter.

7. A copy of my resume is annexed to this report as Exhibit 1.

Purpose of Report and Rule 26 (a)(2) Disclosures

8. I was retained by Plaintiffs' counsel to provide opinions regarding conditions prevailing before and during the period of June 4th, 2007 to October 2008 (the "Relevant Period") in the market for MTNs issued by SIVs, particularly the medium term notes of Sigma Finance, Inc. due in June 2009 (the "Sigma MTNs"). I was also retained to provide opinions on the prudence of JP Morgan's decision to purchase and subsequently maintain (*i.e.,* not sell) the $490 million investment it made on behalf of class members in Sigma MTNs during the Relevant Period, and JP Morgan's ability to sell all or a portion of the $490 million of Sigma MTNs it held at various times during the Relevant Period.

9. I submit this report to disclose the opinions I intend to express at trial and to summarize the basis and reasons for my opinions and my qualifications to render those opinions.

10. In arriving at my opinions, I considered the materials identified in Exhibit 2.

11. My fees for this engagement will be calculated on an hourly basis at the rate of $525 per hour. Payment of my fee is not contingent upon the opinions expressed herein or on the outcome of this action.

Summary and Background

12. I have reviewed Daniel J. Nigro's June 23rd, 2010 rebuttal declaration and supplemental August 12th, 2010 declaration prepared for this case. I concur with the opinions and reasoning Mr. Nigro sets forth in those declarations regarding the imprudence of JP Morgan's decision to invest on behalf of class members in the Sigma MTNs on June 4th, 2007 and its decision to hold the Sigma MTNs thereafter. I adopt and incorporate those opinions and rationale herein by reference.

13. As Mr. Nigro points out in his declarations, the investment guidelines for class members' securities lending accounts were uniformly conservative with little or no room for a security whose risk/reward profile might result in a material loss of principal. However, in May 2007—the month before JP Morgan purchased the Sigma MTNs—SIVs were of speculative creditworthiness, with an unsustainable asset-liability mismatch and no transparency into the assets backing their debt. SIVs were policed only by ratings analysts whose careers were bound up in the continued success of the SIVs. By the fall of 2007, Sigma was funding itself with substantial balances under repurchase agreements ("repos"), which effectively subordinated the remaining MTN investors, and executing ratio trades which resulted in Sigma's most valuable and liquid assets being liquidated. These facts, among the others identified by Mr. Nigro and those set forth below, demonstrate the imprudence of JP Morgan's decision to invest in the Sigma MTNs in the first instance and to subsequently maintain that investment during the Relevant Period.

14. Further, and as explained in more detail below, JP Morgan had ample opportunity to sell the $490 million of Sigma MTNs during the Relevant Period at the then-existing prices.

In my opinion, JP Morgan could have sold its entire $490 million Sigma MTN position at various times during the Relevant Period without materially moving the then-existing price. For example, prior to Thanksgiving 2007, JP Morgan could have sold blocks of $100 million of the Sigma MTNs over several days until it sold all $490 million, without materially moving the then-prevailing price. Likewise, thereafter, JP Morgan could have sold $25-100 million blocks of Sigma MTNs over the course of several days until it sold all $490 million without significantly moving the then existing price.

15. I understand that I may be called to testify regarding this matter and to rebut matters raised by JP Morgan's witnesses. Such testimony would necessarily be further informed by and/or in response to any testimony or additional evidence presented by JP Morgan regarding this matter. As a result, my opinions may be modified or supplemented based upon additional facts and materials that may become available to me up to and during a trial of this action.

Imprudence of Sigma Investment

16. Mr. Nigro's report provides an excellent chronology of events leading up to the demise of the SIVs, which I will not repeat. However, I will expand on certain characteristics of Sigma and certain events significant in Sigma's history.

17. In addition to the market red flags identified by Mr. Nigro, several other red flags existing prior to June 4th, 2007 signaled the imprudence of investing in the Sigma MTNs: (a) the SIVs were extremely opaque, making their debt investors unusually reliant on the rating agencies' opinions; (b) the SIVs had grown explosively, without either substantive regulatory oversight or real experience of economic stress; (c) the widening of credit spreads and falling NAVs beginning in late 2006 forecasted trouble ahead for SIVs, including Sigma; and (d) Sigma, in particular, was not sponsored by a bank or other financial institution who might help resolve Sigma's liquidity problems.

18. Further, additional red flags after this date pointed to the imprudence of maintaining the investment in the Sigma MTNs: (a) Sigma lost its traditional sources of funding; (b) Sigma entered into repo financing arrangements, pledging an overwhelming majority of its assets; (c) Sigma sold or ratio-traded its assets to generate cash flow, and (d) the news for the SIV sector continued to worsen.

Red Flag: SIVs' Lack of Disclosure of their Assets

19. At all times before and during the Relevant Period, the SIVs, including Sigma, were extremely opaque to debt investors. In other words, investors had very little information about Sigma's underlying portfolio and were forced to rely on credit rating agencies and on generalized information. For conservatively managed funds, this level of opacity—which yielded an inability to fully analyze and understand the Sigma MTN investment—created an unsuitable risk to the class members. JP Morgan acted imprudently by buying and holding such an opaque investment, especially in the large quantity purchased and during a weakening market. Even JP Morgan's own portfolio manager agrees with this conclusion, testifying that "it

wouldn't be prudent" to invest in a security "if you can't analyze all of the financial data of the corporation."[1]

20. Sigma's debt investors had only limited information on the SIV they financed. Indeed, Gordian Knot did not disclose the assets Sigma owned, many of the documents under which the SIV operated, the exact tenor of Sigma's assets, or the counterparties with which Sigma financed its assets with repo.[2] Sigma provided no security level detail for its portfolio, choosing instead to provide limited summary portfolio statistics.[3] The senior and capital liabilities were generally known, but only because a diligent investor could find them listed on the Bloomberg information service. In general, a Sigma MTN investor knew only that Sigma's liabilities came due before its assets unless Sigma could roll over its liabilities, but had no idea whether Sigma held assets that could be sold to bridge the gap.

21. JP Morgan was in no different a position than other debt investors, as poignantly demonstrated by its Sigma analyst's (Lisa Shin) May 20th, 2008 instant message to the head of Securities Lending regarding Sigma: ""nope- I ask lots and lots of questions and the answers that come back are so vague its (sic) not even funny..."[4]

22. Thus, JP Morgan chose to rely on the oversight of the rating agencies without any way to properly analyze its Sigma MTN investments. But, at that time, it was well known that the rating agencies opinions were prepared by SIV teams, based primarily in London, whose revenues were paid almost entirely by the SIVs and who were therefore dependent on the SIVs for their bonuses and careers. Such blind reliance, with no independent ability to appropriately analyze or monitor the particular investment, made JP Morgan's decision to purchase and hold \$490 million—a significantly large position in a weakening economy—of Sigma MTNs imprudent. In fact, one of JP Morgan's portfolio managers involved in the Sigma MTN investment—David Reddy—agrees that it is imprudent to invest in a security "if you can't analyze all of the financial data of the corporation."[5]

<u>Red Flag: Explosive Growth of the SIVs after 2004</u>

23. In 1988, Nicholas Sossides and Stephen Partridge-Hicks started the first SIV, Alpha Finance Corp. The total number of SIVs grew only slowly thereafter. By 1995, there were only three SIVs in existence and even in 2004 there were only 18 established SIVs. One key reason was that the rating agencies were the gatekeepers to the formation of new SIVs. Moody's and S&P both rated new SIVs only slowly, taking more than a year to examine new SIV proposals and requiring that a SIV be sponsored by a commercial bank. For many years, the

[1] Reddy Deposition, pp 81-82

[2] *See, e g ,* JPMC00277537-40 (stating that Sigma "refuse[s] to report Capital NAV or NAV of portfolio ")

[3] JPMC00000106-9, JPMC000229722-4

[4] JPMC00009114

[5] Reddy Deposition, pp 81-82

only material exception to this last rule was Sigma, which Sossides and Partridge-Hicks founded in 1995 after leaving Citigroup. In the 2000s, the agencies started to approve SIVs at a much more rapid rate than before. By 2007, there were 31 SIVs in existence, with more than $300 billion in outstanding commercial paper and MTNs. The following is a list of the SIVs that had material amounts of debt outstanding in mid-2007:

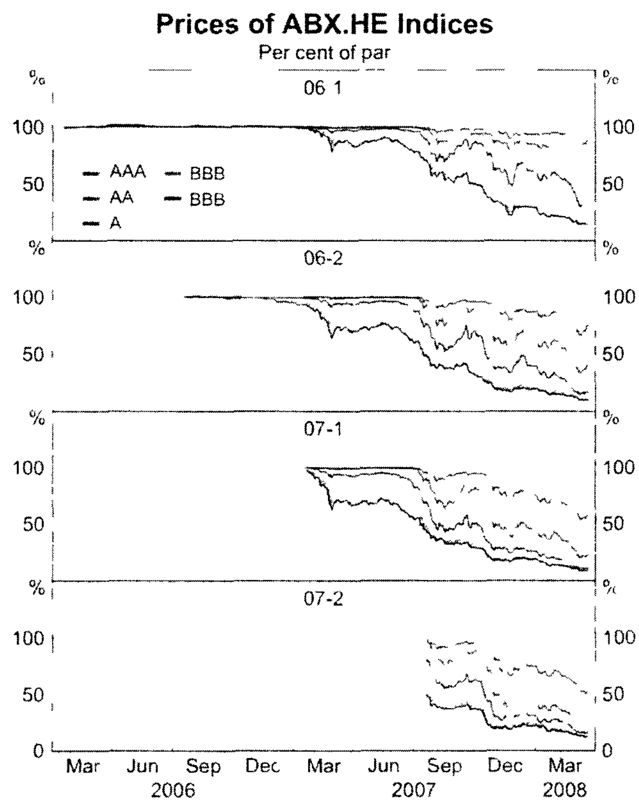
Manager in 2007	SIV	Launched	Senior debt $mm	
			Dec-05	Jul-07
Citigroup	Beta Finance Corp	1989	$15,300	$20,175
Gordian Knot	Sigma Finance	1995	34,000	52,641
Citigroup	Centauri Corp	1996	16,100	21,838
Citigroup	Dorada Corp	1996	10,500	12,484
Eiger Capital	ABC / Orion Finance	1996	1,100	2,298
Bank of Montreal	Links Finance Corp	1999	13,500	22,301
Citigroup	Five Finance Corp	1999	2,200	12,843
Dresdner Kleinwort	K2 Corp	1999	20,600	29,056
NSM Capital Mgmt / Emirates Bank	Abacas Invmnts Ltd.	1999	1,100	1,007
Bank of Montreal	Parkland Finance	2001	1,600	3,414
Ceres Capital Ptnrs	Victoria Finance	2002	4,900	13,243
Societe Generale	Premier Asset Collateralised Entity Ltd.	2002	2,200	4,312
Standard Chartered	Whistlejacket Capl Ltd.	2002	4,200	8,844
Standard Chartered	White Pine Corp	2002	6,600	7,854
Rabobank	Tango Finance	2002	6,000	14,039
WestLB	Harrier Finance Fndg	2002	5,000	12,343
Citigroup	Sedna Finance Corp	2004	1,200	14,415
Cheyne Capital Mgmt	Cheyne Finance	2005	0	9,726
HSBC	Cullinan Finance	Jul-05	0	35,142
Eaton Vance	Eaton Vance Variable Leveraged Fund	2006	0	542
Citigroup	Vetra Finance Corp	Jun-06	0	2,616
HSH Nordbank	Carrera Capital Finance	Jul-06	0	4,283
WestLB	Kestrel Funding	Aug-06	0	3,315
Citigroup	Zela Finance Corp	Nov-06	0	4,188
Natixis/Ontario Teachers	Cortland Capital	Nov-06	0	1,344
MBIA	Hudson-Thames Capl	2006	0	1,767
Axon Asset Mgmnt	Axon Financial Funding	Mar-07	0	11,193
Deutsche IKB	Rhinebridge Plc	Apr-07	0	2,199
AIG-FP Capital Mgmt	Nightingale Finance	May-07	0	2,330
HSBC	Asscher Finance	Jun-07	0	7,330
Gordian Knot	Theta Finance	2004	0	n/a
	Total		$146,100	$339,082

Sources: "Asset securitisation and synthetic structures: innovations in the European Credit Markets. Rick Watson, Jeremy Carter. Euromoney Books. 2006; "FACTBOX-Structured investment vehicles and managers". Oct 15th, 2007. Reuters.

24. To any debt analyst, rapid growth in a company or its industry is almost invariably a warning sign. For financial companies, it's almost without exception a sign of grave danger because it points to the rapid extension of credit to borrowers to whom the company would not previously have extended funds on the same terms.

<u>Red Flag: Widening Credit Spreads and Unsteady Market</u>

25. Well before JP Morgan's investment in the Sigma MTNs, credit spreads began to widen. Beginning in September 2006, the credit spreads on the lower-rated newly-issued subprime mortgage backed securities began to widen, and their prices began to fall (please see the yellow box, identifying the time period, in the chart below).



Source Reserve Bank of Australia, Financial Stability Report, March 2008

26. The widening spreads caused prices of SIV assets to fall, which lowered the NAVs of SIVs and SIV-lites. SIVs depended on maintaining a minimum NAV to avoid enforcement (that is, mandated liquidation), which could further compound the remaining SIVs' pricing issues by causing large quantities of fixed income securities to be dumped on the market. JP Morgan was well aware of the impact of the widening credit spreads on SIVs. On September 7th, 2007, JP Morgan published a research note recognizing, "The outlook for Structured Investment Vehicles (SIVs) is *grim*.... [T]he SIVs are heavily exposed to the general level of

credit spreads; both as investors and issuers, and the substantial spread widening sustained during the past several weeks has hurt them on both sides of their balance sheets."[6] Essentially, the credit spread widening prior to the June 4th, 2007 purchase contributed to a dynamic downward spiral, causing SIVs to begin failing only months later in the fall 2007 due to pricing (NAV) pressures.

27. As confirmed by JP Morgan's research note, the widening of credit spreads prior to the June 4th, 2007 investment in the Sigma MTNs was a further and significant red flag, signaling imprudence of the Sigma MTN investment.

Red Flag: Sigma's Lack of a Sponsor

28. Unlike most SIVs that existed in 2007 and 2008, Sigma lacked a bank or other financial institution sponsor. Compounding matters, by no later than November 27th, 2007, Lisa Shin, JP Morgan's Sigma analyst, knew Sigma had a funding buffer of only "a week or two."[7] The committed liquidity facilities Sigma had in place were only sufficient for short-term liquidity needs.[8] Sigma's only source of bank support was the modest amount needed to cover net cumulative outflow ("NCO") tests.

29. In the weakening market that existed in June 2007 and thereafter, this was a critical fact because the lack of a sponsor, coupled with Sigma's decision to remove market value triggers, meant that investments in the Sigma MTNs carried an increased risk of default without a backstop—a risk that was not appropriate for the securities lending accounts of class members.

Red Flag: SIV Anxiety Grows and Sigma Loses Traditional Sources of Funding

30. Around June 10th, 2007, Bear Stearns Asset Management's ("BSAM") approximately $5 billion Bear Stearns High Grade Structured Credit Strategies ("HGSC") funds failed to meet margin calls. While BSAM did not sponsor a SIV, it was one of the biggest and most leveraged investors in RMBS and CDO securities and it became apparent that more than 20 banks had either swap lines or repo facilities outstanding to the HGSC funds. BSAM called a meeting of their HGSC funds' creditors the following week, and asked for forbearance. However, BSAM lacked a substantive plan, and creditors were more interested in quickly liquidating their collateral. This had an enormously negative impact on investors, because HGSC mostly held highly-rated RMBS, ABS, CDO and other structured finance debt – exactly the same assets as those in many SIVs and SIV-lites and the structured finance market anticipated a rapid liquidation of the HGSC funds' assets, which would drive down their prices and thus the NAVs of SIVs holding similar assets.

[6] "SIVs More Questions Than Answers" Short Duration Strategy, Sept 7, 2007, J.P Morgan Securities, Inc

[7] JPMC00003581

[8] Sigma Consolidated Financial Staetments for year ending April 30, 2007

31. In early July 2007, Rhinebridge Plc, a SIV-lite that had begun operations only weeks before, defaulted on total of $7 billion of debt after failing to obtain back-up financing. This had a calamitous impact on CP and MTN investors' remaining appetite. That week, SIVs—including Sigma—were unable to place CP or MTNs. With only rare exceptions, the SIVs never again succeeded in rolling over senior unsecured debt.

32. On July 10th, 2007, S&P watch-listed 612 classes of RMBS. Moody's followed the same day by announcing downgrades on 399 subprime mortgage securities originated in 2006. According to a Moody's press release that day, securities with an original face value of over $5.2 billion were downgraded, representing 6.8% of the subprime RMBS issued during 2006.

33. As summer progressed, SIVs (and their investors) began to realize that CP/MTN investors weren't coming back. Bank sponsors such as Societe Generale and Citigroup started to buy CP from their SIVs to permit the SIVs to roll over maturing CP. This was not an option for Sigma, having no sponsor and only limited committed bank facilities.

34. SIVs typically had debt maturing in most weeks. Most SIVs were structured to rely on bank liquidity only to cover NCO tests – usually, the amount of debt coming due in any given five-day period in the coming months. SIVs generally held long-dated assets, so maturing asset principal was never enough to repay the SIVs' debts as they came due. Therefore, the SIVs sold assets, typically those they could sell without a loss or could put the assets or persuade the issuer to call the assets. Sigma was no different: initially, it reduced its assets to bridge the gap between liability and asset maturities. The problem was that, while Sigma's assets remained unknown, any reasonable debt investor would correctly conclude that Sigma was selling its higher value assets, because these were the ones whose sale, in an illiquid market, would least reduce the NAV of the SIV.

Red Flag: Sigma's Increased Dependence on Repo Financing

35. By September 2007, Sigma had begun to rely heavily on repo financing. That is, Sigma had started to repo many more assets than prior to this time to broker-dealers to maintain funding. In fact, Sigma began to use repo much more heavily in September and October, increasing the outstanding repo amounts from around $1bn over the summer to around $10bn by the end of October.[9]

36. According to Sigma's own reports, repo financing was reserved for "a liquidity crisis [which] offers Sigma an alternative form of liquidity that is not dependent on Sigma's name and credit ratings."[10] However, during a liquidity crisis, is exactly when JP Morgan should have passed on the investment in the Sigma MTNs or immediately sold the investment upon

---

[9] *See* Sigma Monthly Statements for 2007.

[10] Sigma Consolidated Financial Statements for year ended April 30, 2007.

such realization.

37. JP Morgan knew that repo financing was only a short-term solution for Sigma and would not, and could not, sustain Sigma in the long term. On August 23rd, 2007, one of JP Morgan's investment bankers discussing Sigma noted that "the current liquidity squeeze on the Structured Investment Vehicles is unlikely to abate" and "as weaker managers are forced to unwind their portfolios the situation could deteriorate further." He continued, "we think it possible—even probable—that the entire sector unwinds." Regarding the credit rating agencies decisions to allow SIVs to repo securities, he dubbed it "an allowance made only under extraordinary circumstances. (We do not believe this works in any meaningful way.)".[11]

38. Likewise, JP Morgan's distressed desk traders and Lisa Shin appreciated this fact, as evidenced by a May 20th, 2008 communication between them: "Rumor out of London JPM doing $10 bln repo – can you say cherry pick and super senior – bodes well for 2008 – *not so for the tail end maturities...*" (emphasis added).[12]

39. This investment banker, the distressed desk trader, and Lisa Shin were absolutely correct. Repo financing was never intended to be a long-term strategy to maintain SIVs. In fact it was a short-term tool that would destroy a SIV's creditworthiness when used over the long-term as it cannibalized assets until there were no more left for margin calls or to repo to pay additional maturing debt. Repo financing clearly did not solve any problem, but instead only prolonged and exacerbated Sigma's demise and did so at the cost of the later maturing MTNs, including those held by JP Morgan on behalf of class members.

40. Fitch reported on this exact fact on January 18th, 2008 when it placed Sigma's medium term notes and commercial paper on Watch Negative: "Sigma has been forced to rely on access to the secured repurchase agreements (repo's) (sic) and, to a lesser extent, asset sales to meet maturing liabilities. While this has provided some short-term funding flexibility, Fitch has concerns over the long-term viability of Sigma's funding strategy and its implications for investors in the current funding environment, including reliance on secured funding from repo counterparties...in the absence of new information from Gordian Knot, it is likely that Fitch will have to withdraw its rating shortly."

41. The use of, and increasing reliance on, repo financing was a significant red flag for Sigma's debt investors, including JP Morgan, for yet another reason: if the SIV defaults, the repo counterparties keep the collateral. Also, because the repos were being arranged in a time of distress, the repo investors were in a position to insist on taking the lowest-risk assets, leaving only the riskier assets unsecured. This meant that the remaining MTN investors were being effectively subordinated to the repo counterparties.

---

[11] JPMC00157660-63.

[12] JPMC00000246.

42. Repo financing spelled disaster for Sigma. Once JP Morgan saw Sigma turn to repo financing it should have immediately liquidated its investment. Failure to do so was imprudent.

Red Flag: Sigma Turned to Ratio Trades

43. As an additional source of funding, Sigma began executing "ratio trades."[13] Through these transactions, Sigma debtors would receive assets of Sigma in exchange for cash and the cancellation of the MTNs they held. A typical ratio trade would involve the MTN holder buying $100mm of selected assets from the SIV at their theoretical market value and the SIV buying $50mm of the MTN holder's notes.

44. The fundamental problem was that these ratio trades were completely opaque. While they reduced the leverage ratio of the SIV and provided immediate cash flow, the buyers usually got to take, within certain limits, the assets they wanted – which were usually the highest quality, most liquid assets. MTN investors couldn't know how much of the better assets were being picked off. Sigma did provide assurances to investors that it did not invest in subprime mortgage securities. However it did hold CDO notes and other instruments, the exact nature of which was not disclosed to debt investors, and it should have been clear to JP Morgan that if ratio trades were completed, these illiquid, opaque, assets would represent an increased percentage of Sigma's assets.

45. Investors frequently expressed their concern to me that ratio trades and the repo facilities were leaving Sigma with only the most problematic assets to back the unsecured debt. In fact, one of Gordian Knot's employees advised JP Morgan's Lisa Shin of this very fact: "collateral is indeed getting thinner."[14] Another commented to Jim Wilson, the head of securities lending, that ratio traders were able to "cherry pick" assets and "the SIV portfolio may be getting worse and worse as the better securities were removed."[15] Remaining MTN investors could only guess at what realizable value would remain. This was not prudent.

Red Flag: SIVs begin collapsing in Summer and Fall 2007

46. By late summer to early fall 2007, the financial markets were in significant decline[16] and the demise of SIVs was evident. Because of their intrinsic characteristics and the prevailing market conditions, SIVs were certain to face an imminent unwinding or failure. Thus, at this time, it was imprudent for a securities lending program to hold investments in SIVs, as they were far too risky for a thin-margin securities lending program.

---

[13] JPMC00387937 (April 2008 research note reflecting that Sigma had executed $4 billion in ratio trades).

[14] JPMC00001588.

[15] JPMC00232798.

[16] *See, e g.,* Reddy Deposition, p. 160.

47. By August 2007, news of SIV troubles began filling the financial news. The following paragraphs contain examples of headlines regarding SIV issues. These headlines are intended to be indicative of the problems facing SIVs, not an exhaustive list.

48. On August 21st, 2007, S&P downgraded two SIV-lites (Golden Key and Mainsail II) and placed two others (Sachsen Funding I and Cairn High Grade Funding I) on Watch Negative.[17]

49. On August 28th, 2007, S&P downgraded the CP and MTNs of the Cheyne SIV.[18]

50. On September 5th, 2007, Moody's downgraded the Cheyne SIV's mezzanine and combination capital notes and placed the rating of four other SIVs' CP and note programs on Watch Negative.[19]

51. On September 7th, 2007, JP Morgan's own analyst concluded the following regarding the fate of SIVs: "The outlook for Structured Investment Vehicles (SIVs) is grim. We believe that the survival of the SIV business model is in serious jeopardy owing to its ongoing liquidity drought and the resulting difficulties SIVs face in issuing new debt."[20]

52. On September 12th, 2007, S&P downgraded the Rhinebridge SIV's mezzanine capital notes and combination notes and placed its CP and MTN programs on Watch Negative.[21]

53. In mid- to late October 2007, the Victoria Finance SIV began a restructuring offer. In essence, the $2bn Victoria Finance restructuring was a publicly-disclosed ratio trade of the assets to the SIV's capital noteholders, in part funded by the MTN holders selling their notes at a discount.

54. On October 19th, 2007, the Rhinebridge SIV entered into enforcement.[22]

55. Similarly, the Axon SIV entered into enforcement four days later on October 23, 2007.[23]

---

[17] European Securitised Products Outlook 2008, Jan 25th, 2008, Citigroup Global Markets Ltd

[18] European Securitised Products Outlook 2008, Jan 25th, 2008, Citigroup Global Markets Ltd

[19] European Securitised Products Outlook 2008, Jan 25th, 2008, Citigroup Global Markets Ltd

[20] "SIVs More Questions Than Answers" Short Duration Strategy, Sept 7th, 2007, J P Morgan Securities, Inc

[21] European Securitised Products Outlook 2008, Jan. 25th, 2008, Citigroup Global Markets Ltd

[22] JPMC00035358-71

[23] JPMC00035358-71

56. On October 31st, 2007, the Citigroup SIVs (Beta, Centauri, Dorada, Five, Sedna, Vetra, and Zeta) required a $7.6 billion infusion of emergency funding from its sponsor.[24]

57. On November 7-8th, 2007, Moody's placed $33 billion of SIV capital notes on review for possible downgrade.[25]

58. By November 26th, 2007, HSBC took $45 billion of the Asscher SIV and Cullinan SIV onto its balance sheet.[26]

59. By November 27th, 2007, the sponsor of the Hudson-Thames SIV (MBIA) was providing bondholders with a vertical slice of assets to wind down the SIV.[27]

60. On November 30th, 2007, Moody's downgraded $14 billion of SIV debt while placing another $105 billion on review for possible downgrade.[28]

61. By December 3rd, 2007, the Cheyne SIV was in receivership and considering its options for restructuring.[29]

62. On December 4th, 2007, the Orion SIV entered into enforcement.[30]

63. By December 4th, 2007, the Harrier SIV's and Kestrel SIV's sponsor stepped in to guarantee principal and interest to senior note investors.[31]

64. By December 5th, 2007, the Links SIV and Parkland SIV were working with investors to resolve their funding issues.[32]

65. By December 5th, 2007, the Whistlejacket SIV began using vertical slices to wind down.[33]

---

[24] JPMC00035358-71

[25] European Securitised Products Outlook 2008, Jan. 25, 2008, Citigroup Global Markets Ltd

[26] JPMC00035358-71

[27] JPMC00035358-71

[28] European Securitised Products Outlook 2008, Jan 25, 2008, Citigroup Global Markets Ltd

[29] JPMC00035358-71

[30] JPMC00035358-71

[31] JPMC00035358-71

[32] JPMC00035358-71

[33] JPMC00035358-71

66. By December 6th, 2007, the Tango SIV's sponsor (Rabobank) determined it would take $7.6 billion of assets onto its balance sheet.[34]

67. On December 7th, 2007, S&P downgraded capital notes of 14 SIVs and changed the outlook of 18 other SIVs to negative. S&P reported that it might cut ratings on the CP and MTNs of three SIVs.[35]

68. During the period from October 2007 to late February 2008, most SIVs went into "enforcement" – runoff – or were taken out of the debt market by their bank sponsors. In some cases, this was through insolvency (e.g. Axon, Whistlejacket, Orion, and "rump" Victoria).

69. Sigma, however, managed to survive this period because it had previously removed the "Market Value" triggers that governed most SIVs. This removal, which was agreed with by the rating agencies in 2003, was viewed by some as a strength of Sigma. However, by removing the triggers, Sigma was allowed to evade enforcement (a mechanism designed to protect a SIV's debt holders) and continue operating even when the "market value" of the Sigma's assets fell below a certain relationship to their liabilities. Thus, Sigma's removal of the market value triggers served as a great weakness to the Sigma MTN holders because Sigma avoided enforcement when the value of its assets fell and, even worse, was allowed to steadily subordinate its MTN investors to its repo counterparties. In fact, repo financing rose from just 2% of Sigma's assets in July 2007 to more than 40% by March 2008.

70. This fact alone—the exponential increase in repo financing to the detriment of the holders of the Sigma MTNs that began in summer 2007—was a tremendous red flag indicating the imprudence of holding the investment in the Sigma MTNs. However, when considered with the general market conditions and collapse of the SIV sector, it was unquestionably imprudent for JP Morgan to continue holding the Sigma MTNs. JP Morgan's investment bankers recognized as much in December 2007: "[S]igma is heading straight into a brick wall." [36] Yet, JP Morgan imprudently sat back and watched the collision.

<u>JP Morgan's Ability to Sell the Sigma MTNs during the Relevant Period</u>

71. As provided above, it is my opinion that JP Morgan acted imprudently by purchasing the Sigma MTNs in the first instance and then by holding the Sigma MTN investment through the Relevant Period. Given that JP Morgan purchased the Sigma MTNs, it should have sold them at its first available opportunity.

72. JP Morgan had the ability to sell its entire $490 million position in the Sigma MTNs at the then-existing market prices for the Sigma MTNs during the period of June 4th,

---

[34] JPMC00035358-71

[35] European Securitised Products Outlook 2008, Jan. 25, 2008, Citigroup Global Markets Ltd

[36] JPMC00271362-3.

2007 through at least August 2008. JP Morgan could have and should have done this by selling blocks of the Sigma MTNs over the course of a day or several days. By engaging in such portioned sales, JP Morgan could have sold its entire $490 million position without moving the market—that is, without negatively impacting the then-existing price for the Sigma MTNs.

73. During much of this period, JP Morgan had the ability to sell $100 million blocks of Sigma in the market. For example, in fall 2007, Sigma made a standing offer to purchase $100 million blocks of the Sigma MTNs at a price of $94.[37] This action by Sigma established a floor in the market for $100 million blocks, which had a continued impact for some time thereafter. It also evidences the ability to transact trades during this period in the Sigma MTNs in $100 million blocks.

74. In fact, during October 2007, I was aware that $100 million blocks of Sigma and other SIVs were being traded at the then-prevailing market prices. During this time, I was the co-lead of the Credit Suisse team responsible for the restructuring of Victoria Finance (which included open market repurchases of SIV debt, including MTNs). In this capacity, I was in daily contact with the Credit Suisse corporate trading team that handled SIV debt. Because the Victoria proposal, formally launched in early October, required us to make open market repurchases of SIV CP and MTNs, I was on many days purchasing MTNs or CP and exchanged information with my colleagues on bids, offers, and interest we had seen for SIV paper. Based on these communications and my experience, I know that Citigroup's SIVs and Sigma were the two SIV programs that traded most frequently. As a matter of fact, there were at least 6 or 7 dealers for the Sigma MTNs at this time. Trades of $100 million blocks of SIVs (including Sigma) were executed during this period and had no material negative impact on the price for those securities.

75. Later in the Relevant Period, as liquidity in the market became more scarce, the ability to trade $100 million blocks of the Sigma MTNs decreased. However, the market nonetheless maintained an appetite for the Sigma MTNs in smaller blocks. By spring 2008, JP Morgan could have sold its entire $490 million position in the Sigma MTNs at the then-existing market prices for the Sigma MTNs by selling it over the course of several days in blocks of $25 to $100 million. In fact, as confirmed by JP Morgan internal documents, significant buyers of Sigma paper were seeking blocks of Sigma MTNs up to $100 million on May 21st, 2008 and thereafter.[38] The liquidity for the Sigma MTNs increased during this period due to an increased demand for this paper by hedge funds.[39] By July 2008, certain purchasers continued demanding the Sigma MTNs at prices of $76/79.[40] Indeed, as late as August 2008, a JP Morgan internal document confirmed its portfolio managers' confidence that IBM's $100 million block of Sigma

---

[37] JPMC00277537-40 (October 30, 2007 email reflecting a "standing 94 bid for up to $100 million of any piece of senior debt" of Sigma).

[38] JPMC00158749.

[39] Wilson Deposition at 179-80; JPMC00218225.

[40] See Exhibit 3 (Bloomberg screen shot for July 14, 2008).

MTNs could be sold in the secondary market at a price of $75.[41] It is my opinion that JP Morgan could have sold its entire $490 million position in similarly sized blocks without negatively impacting the then-existing market price.

76. In short, based on my experience in the SIV market at the time and JP Morgan's internal documents, it is my opinion that a market existed for JP Morgan to sell its entire $490 million position in the Sigma MTNs in appropriate sized blocks during the period of June 2007 through August 2008 at the then-existing market prices.

Summary

77. By June 4th, 2007—the date JP Morgan purchased the Sigma MTNs for class members' securities lending accounts—the SIV sector was in visible turmoil and uncertainty. Given the stated conservative nature of these securities lending accounts, JP Morgan should not have purchased the Sigma MTNs and, in fact, acted imprudently by doing so. The market concerning SIVs and, specifically, the Sigma MTNs only turned worse during the Relevant Period. Moreover, the lack of disclosure about Sigma's portfolio and the actions taken by Sigma to fund its day-to-day operations were significant red flags that Sigma was in a serious state of decline and risking the entirety of MTN holders' investments. Thus, JP Morgan's decision to hold the Sigma MTN investment on behalf of class members remained imprudent.

78. In my opinion, JP Morgan should have and, in fact, could have sold its entire $490 million position in the Sigma MTNs during the period between June 4th, 2007 and August 2008. JP Morgan could have done so at the then-existing market prices by selling the Sigma MTNs over the course of one or several days in blocks of $100 million (early in this period) and then smaller blocks ($25 million to $100 million) later in the period.

79. I reserve the right to amend or supplement this report as additional information is received that bears on my opinions contained herein.

---

[41] JPMC00013287-13290 ("JPMorgan continues to believe a price of 75 is more reflective of what could be expected in the secondary market"), Devine Deposition, p 50 (identifying the size of IBM's Sigma MTN exposure in its main account as $100 million) In fact, I have seen documentation and testimony reflecting that JP Morgan assigned the Sigma MTNs a fair value price of $85 from May 2008 until Sigma's receivership O'Connor deposition, pp. 112-113

Dated: New York, New York

August 13th, 2010

Fiachra T. O'Driscoll

EXHIBIT 1

Resume of
Fiachra T. O'Driscoll

11 East 9th Street #3
New York, NY 10003

fodnscoll1@venzon net
Telephone· (917) 680-6645
Fax (212) 334-6002

Fiachra T. O'Driscoll

Employment

2009-date **KFSO Investments** **New York, New York**

Partner

Portfolio manager of new investment fund focused on bank and financial institutions

- Long-short approach
- Fundamental research orientation
- Seeking value across equity, debt, and structured finance

1992-2008 **Credit Suisse** **New York, New York**
Moscow, Russian Federation
London, England

Managing Director, Co-Head of CDO Structuring, Americas (2005– 2008)

Jointly responsible for arranging and marketing of cash and synthetic CDOs in the Americas, including ABS, MBS and CMBS and IG and HY corporates.

- Ran a team of up to 18 people with a $70mm budget
- Cash ABS CDOs
- Bank balance sheet CLOs
- Synthetic single-tranche CDOs
- CMBS / CRE synthetic CDOs
- Hybrid structured finance CDOs
- CDO-squareds
- SIV and SIV-Lite debt and asset restructurings
- Credit Default Swaps, both portfolio CDS and "single-name"
- Synthetic RMBS securitizations

Managing Director, Synthetic CDO Trading (2003– 2005)

Responsible for all structured trading of synthetic CDOs in the Americas, including IG and HY corporates, loans, and ABS, MBS and CMBS.

- Ran a team of up to 8 people
- $40mm budget
- CS representative on CDS industry committees to establish tranched loan documentation

Managing Director, Asset Finance Group (2001– 2002)

Led team marketing securitization, structured derivatives and structured finance M&A services to banks and finance companies in North America and Australia. Primary focus: Residential real estate assets.

- WaMu, Conseco, Tyco/CIT, GreenPoint, Option One
- Commonwealth Bank, WestPac, St George

Director, Asset Finance Group (1998 – 2000) / Vice President (1996 – 1997) / Associate (1995 – 1996)

Marketed auto, manufactured housing loan and home equity loan products to leading finance companies in the US:

- Green Tree, Associates, Oakwood, Deutsche Financial, IndyMac, GreenPoint Financial, United Companies
- Lead managed debut MH issues for Associates, GreenPoint, Deutsche Financial and IndyMac

Associate, Moscow Investment Banking (1994 – 1995)

Handled range of investment banking assignments for Russian companies. Transactions included:

- Sale of AOOT Lyubyatovo biscuit company, Pskov Region
- Investment in Tomskneft oil production company, Western Siberia
- Preliminary work on OAO LUKOIL's first convertible bond issue

Associate, UK Capital Markets Group (1992 – 1994)

Marketed equity, debt, equity-linked debt and derivative products to 35 of UK's largest companies. Transactions included:

- National Power £250mm convertible bond issue, August 1993
- HMC Mortgage 10 £100 mm FRN issue, 1993 – mortgage repackaging
- British Gas £200 mm 50 year issue, 1994 – landmark long-dated sterling

Summer 1991 Goldman, Sachs and Company New York, NY

Summer Associate, Pension Services Group

Developed Europe implementation plan after interviewing major European pension funds.

1987-1990 Bain and Company London, England

Consultant (1989-1990)

- $300 million French gas boiler acquisition, valuation and due diligence.
- Worked with US healthcare multinational's France, Spain and Benelux offices to replace country subsidiaries with a pan-European organization. Ran taskforce groups to restructure organization, cutting headcount 15%.

Associate Consultant (1987-1989)

- Worked with a pro-bono client, *Business in the Community,* helping Sheffield, UK, to rebuild its industrial base. Demonstrated that Sheffield needed modern factory space to attract industry.

Education

1990-1992 Harvard Business School Boston, MA

Masters Degree in Business Administration. Focused on capital markets, financial risk management and investment management.

1982-1987 Trinity College Dublin, Ireland

Bachelor's Degree in Computer Engineering, with First Class Honors – equivalent to US *Summa cum laude*. Elected Entrance Exhibitioner in 1982, a scholarship awarded to top 14 candidates in university's entrance exams. Elected by student body to university's governing body, 1984-85.

EXHIBIT 2

Information Considered

Information Considered

1. "SIVs and Conduits", 26 October 2007, Citigroup Global Markets, Ltd.
2. "Money-Market Fund Investors Fret About Their SIV Risk", by Tim Paradis, 28 October 2007, Washington Post.
3. "Moody's to review Sigma rating", by Paul J. Davies, 27 February 2008, FT.com.
4. "Pioneers of structured investments fight for survival of flagship fund", 08 April 2008, The New York Times.
5. "Sigma collapse ends shadow bank project", by Paul J. Davies, Anousha Sakoui, and Gillian Tett, 02 October 2008, FT.com.
6. "Asset securitisation and synthetic structures: innovations in the European Credit Markets", by Rick Watson and Jeremy Carter, Euromoney Books, 2006.
7. "FACTBOX—Structured investment vehicles and managers", 15 October 2007, Reuters.
8. "Caught in the spotlight—the murky world in which risk was normal strategy", by Siobhan Kennedy, 25 August 2007, The Times.
9. "Credit FAQ: Standard & Poor's Recent SIV and ABCP Rating Actions", 14 September 2007, Standard & Poor's.
10. "Restructurers roll boulders uphill", by Louise Bowman, 4 August 2009, Euromoney.
11. "Into the Lite", February 2007, International Financial Law Review.
12. "Leaking Like a SIV?", by Tammy Cadsby, Commercial Mortgage Securities Assoc., Fall 2008, CMBS World.
13. "Pay as you go vs pari passu in an insolvent SIV: Sigma Finance in the Supreme Court," November 2009, Allen & Overy Bulletin.
14. "SIV market sees flurry of innovation", 01 November 2006, Creditflux.
15. "Structured Investment Vehicle Criteria: New Developments", 04 September 2003, Standard & Poor's.
16. "Structured Investment Vehicle (SIV) Litigation Questions", by Dr. Rupert Macey-Dare, April 2010.
17. "More SIVs to come", 11 April 2007, Structured Credit Investor.
18. "Rating Performance of Structured Investment Vehicles (SIVs) in Times of Diminishing Liquidity for Assets & Liabilities", 12 October 2007, Derivative Fitch.
19. John Kodweis deposition and exhibits, 08 June 2010
20. Lisa Shin deposition and exhibits, 25 June 2010
21. James Wilson deposition and exhibits, 29 June 2010
22. John Donahue deposition and exhibits, 17 June 2010
23. David Reddy deposition and exhibits, 15 June 2010
24. Nicole Devine deposition and exhibits, 24 June 2010
25. William Miller deposition and exhibits, 04 June 2010
26. Adam Brinton deposition and exhibits, 23 June 2010
27. Michael Morin deposition and exhibits, 15 July 2010
28. Matthew Sarson deposition and exhibits, 21 April 2010
29. Sandra O'Connor deposition and exhibits, 23 July 2010
30. Daniel Nigro declaration and exhibits, 23 June 2010
31. Daniel Nigro declaration, 12 August 2010
32. Sigma monthly business reports: January 2007 – August 2008

33. Sigma Top Ten Guarantor Exposures: January – February 2007; April – August 2007, October – November 2007, January – March 2008, May 2008
34. Sigma Consolidated Financial Statements for Year Ended 30th April 2007
35. Sigma Quarterly Business Reports: July 2007 (FITCH-SIGMA 00401-500), October 2007 (FITCH-SIGMA 00501-600)
36. Sigma pricing report, 14 July 2009, Bloomberg Finance L.P.
37. JPMC00000039
38. JPMC00000046
39. JPMC00000106
40. JPMC00000138
41. JPMC00000838
42. JPMC00001588
43. JPMC00003581
44. JPMC00009206
45. JPMC00009241
46. JPMC00009345
47. JPMC00009373
48. JPMC00009381
49. JPMC00009545
50. JPMC00009576
51. JPMC00013287
52. JPMC00018603
53. JPMC00020365
54. JPMC00022304
55. JPMC00035358
56. JPMC00050660
57. JPMC00050680
58. JPMC00078744
59. JPMC00088714
60. JPMC00155160
61. JPMC00158749
62. JPMC00193950
63. JPMC00196685
64. JPMC00213296
65. JPMC00214324
66. JPMC00218225
67. JPMC00221436
68. JPMC00221444
69. JPMC00221446
70. JPMC00221746
71. JPMC00228716
72. JPMC00231657
73. JPMC00232021
74. JPMC00232127
75. JPMC00232136
76. JPMC00236144

77. JPMC00236202
78. JPMC00277537
79. JPMC00291005
80. JPMC00291007
81. JPMC00292005
82. JPMC00292007
83. JPMC00387937

EXHIBIT 3

Bloomberg Screenshot for July 14, 2008

Page　　　　　　　　　　　　　　　　　　　　　　　　　　Corp **MSG**

1<GO>DEL 2<GO>REPLY 3<GO>FWD 11<GO>NEXT 12<GO>PREV 99<GO>OPTIONS

7/14 9:15:36　　　　　　　　　　　　　　　　　　　　　　　　　　Page 2 / 4

*FRANK ARGILAGOS (DEUTSCHE BANK SECURI)

Fwd:**SIV Axes in CP and MTNs - Jul 14**

91)☆

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible] Finance	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	

Page　　　　　　　　　　　　　　　　　　　　　　　　　　Corp **MSG**

1<GO>DEL 2<GO>REPLY 3<GO>FWD 11<GO>NEXT 12<GO>PREV 99<GO>OPTIONS

7/14 9:15:36　　　　　　　　　　　　　　　　　　　　　　　　　　Page 3 / 4

*FRANK ARGILAGOS (DEUTSCHE BANK SECURI)

Fwd:**SIV Axes in CP and MTNs - Jul 14**

91)☆

[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	Sigma Finance	[illegible]	[illegible]	
[illegible]	[illegible] Finance	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]